

**NEBRASKA INVESTMENT COUNCIL  
MINUTES OF THE MEETING OF  
August 12, 2008**

A regular meeting of the Nebraska Investment Council convened at 8:28 a.m. at the Marriott Hotel in Omaha, NE.

Public notice was posted on the Nebraska Public Meeting Calendar on July 29, 2008, and published in the Lincoln Journal Star on August 3, 2008. Ms. Werner-Robertson chaired the meeting and Ms. Dawes recorded the minutes.

**MEMBERS PRESENT:**

Ms. Gail Werner-Robertson, Chairwoman  
Dr. Richard DeFusco  
Mr. John Maginn  
Mr. John Dinkel  
Mr. Norm Riffel  
Treasurer Shane Osborn (departed at 3:00 p.m.)  
Ms. Phyllis Chambers

**NONMEMBERS IN ATTENDANCE:**

Mr. David Bomberger, State Investment Officer  
Ms. Kathy Dawes, Council Secretary  
Ms. JoLynn Winkler, Nebraska Investment Council  
Mr. Christopher Heinrich, Harding & Shultz  
Mr. Kevin Vandolder, Ennis Knupp + Associates  
Mr. Chris Riley, Ennis Knupp + Associates  
Mr. Brett Nelson, Ennis Knupp + Associates  
Mr. Rob Parkinson, Ennis Knupp + Associates  
Ms. Heather Christopher, Ennis Knupp + Associates  
Mr. Dan Drake, Ennis Knupp + Associates  
Mr. Jason Hayes, Deputy State Treasurer  
Ms. Rachael Rezabek, Director, College Savings Program  
Mr. Gary Bush, State Budget Division  
Mr. Tom Dugan, Citigroup Smith Barney

**ADVISE THE PUBLIC THAT THE OPEN MEETINGS LAWS APPLY: 8:29 a.m. to 8:30 a.m.** Ms. Werner-Robertson stated that a copy of the Open Meetings Act is located on the side table.

**APPROVAL OF THE MINUTES OF THE JUNE 3, 2008 AND JUNE 10, 2008 MEETINGS: 8:30 a.m. to 8:33 a.m.** Mr. Maginn moved that the June 13, 2008, draft of the June 3, 2008, and the June 18, 2008, draft of the June 10, 2008, meetings be approved. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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| VOTING AYE: | Dr. DeFusco          |
|             | Mr. Maginn           |
|             | Mr. Dinkel           |
|             | Mr. Riffel           |
|             | Ms. Werner-Robertson |

The motion carried.

**COUNCIL MEMBER BUSINESS: 8:33 a.m. to 8:40 a.m.** Ms. Werner-Robertson welcomed everyone and thanked them for the extra work required for preparing and attending Council meetings. Ms. Werner-Robertson also appreciates the time members have taken to attend recent budget and audit meetings. Mr. Bomberger reminded members of the August 26, 2008, SIO Roundtable Discussion video conference, which will be held in both Lincoln and Omaha. Mr. Matt Clark, Chief Investment Officer for the South Dakota Investment Council and Mr. Vince Smith, Chief Investment Officer for the Kansas Public Employees Retirement System, will be participating at the Omaha State Office Building's video conferencing site and Mr. Rick Dahl, Chief Investment Officer of the Missouri State Employees' Retirement Systems, will be participating via video conference from Jefferson City, MO. Mr. Bomberger indicated that the Council would be represented at both the Lincoln and Omaha video conferencing sites. Invitations have been extended to the Governor, State Senators, PERB, and staff

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members of the State's Fiscal Office, Budget Office and Policy Research Office. Arrangements have also been made to record the video conference. Mr. Bomberger informed the Council that Mr. Maginn would be leaving the meeting shortly to attend a funeral, but would be returning.

**ENNIS KNUPP STAFFING UPDATE: 8:40 a.m. to 8:50 a.m.** Mr. Vandolder reviewed with the Council Ennis Knupp's organizational structure, which he indicated is divided into two consulting groups; (1) General Consulting Groups, which consists of U. S. and Non-U.S. Equity, Global Fixed Income, Defined Contribution, Analytics, and Trust and Fiduciary; and (2) Specialty Consulting Groups, consisting of Global Real Estate, Global Private Equity, and Opportunistic Strategies. Mr. Vandolder stated that Ennis Knupp has the talent to make the NIC successful in its investment program. A copy of Ennis Knupp's organizational chart was included in the meeting book.

**QUARTERLY PERFORMANCE REPORTING UPDATE: 8:50 a.m. to 9:05 a.m.** Mr. Vandolder and Mr. Riley reviewed with the Council the draft of the Quarterly Performance Report for the first quarter. Mr. Vandolder indicated that the NIC's Quarterly Performance Report is among the most data-intensive of performance reports produced by Ennis Knupp due to the number of different plans they report on. Mr. Riley described a number of reporting enhancements that will allow Council members and staff to easily monitor all plans. Mr. Maginn requested that the report also include the fee analysis for both the real estate and private equity managers. Mr. Bomberger distributed a preliminary report on the performance of the Defined Benefit Plan. Mr. Bomberger indicated that a complete second quarter performance report will be given at the September 30, 2008, Council meeting in Omaha.

Mr. Vandolder introduced two members of Ennis Knupp's global real estate team, Ms. Heather Christopher, Relationship Manager and Mr. Dan Drake, Consulting Manager. Ms. Christopher and Mr. Drake's presentation included a market overview, an overview of the portfolio, pacing update, portfolio diversification, and significant developments.

Copies of the reports are included in the attachments to the minutes.

**ASSET ALLOCATION IMPLEMENTATION PLAN: 9:05 a.m. to 10:05 a.m.** Mr. Vandolder and Mr. Riley presented to the Council proposed changes to the current asset allocation. At recent Council meetings, the Council discussed increasing its allocation to global equities from 5% to 15 % for the Defined Benefit Plan, Cash Balance Benefit, Investor Select, General Endowments, and the HealthCare Endowment and increasing by 1%, its allocation to the non-U.S. equity portfolio. Ennis Knupp cited the following reasons for the increase in global and non-U.S. equity: (1) More attractive risk and return characteristics; (2) Global equity markets continue to be more integrated; (3) Home country bias no longer makes sense as the developed and emerging market securities have become a greater percentage of the world market. Mr. Riley discussed several transition alternatives with the Council. Mr. Vandolder indicated that with the size of the inflow from the U.S. equity portfolio, the NIC will need to search for additional global equity managers to manage the transitioned assets. Mr. Riley reviewed possible candidates for global equity managers. Following discussion, Dr. DeFusco moved to (1) increase the allocation to global equity from 5% to 15% of the total fund; (2) increase the allocation of non-U.S. equity from 12.5% to 13.5%; (3) Transition the active large cap assets to the global equity portfolio; (4) Transition a modest amount from the U.S. equity portfolio to the non-U.S. equity portfolio; for the Defined Benefit Plan, Cash Balance Benefit, Investor Select, General Endowments, and the HealthCare Endowment; and (5) Requested that after due diligence visits, Mr. Bomberger invite his top picks to make a presentation to the Council at the September 30, 2008, Council meeting. Mr. Riffel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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| VOTING AYE: | Mr. Maginn           |
|             | Mr. Riffel           |
|             | Ms. Werner-Robertson |
|             | Dr. DeFusco          |

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| VOTING NAYE: | Mr. Dinkel |
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The motion carried.

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Mr. Bomberger indicated that because the Council maintains the practice of replicating the Defined Benefit Plan and Cash Balance Benefit's decisions in the General Endowments and the HealthCare Endowment whenever possible and prudent, he is recommending allocating 5% of the General Endowments and the HealthCare Endowment to real estate. Ms. Christopher reviewed several global real estate manager candidates for due diligence visits. Following discussion by the Council, Mr. Dinkel moved to approve a 5% real estate allocation to the General Endowments and the HealthCare Endowment. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote. Copies of the presentations are included in the attachments to the minutes.

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| VOTING AYE: | Mr. Dinkel<br>Mr. Riffel<br>Ms. Werner-Robertson<br>Dr. DeFusco<br>Mr. Maginn |
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The motion carried.

Mr. Maginn left the meeting at 9:30 a.m.

**2009-2011 BIENNIAL BUDGET REQUEST SUMMARY: 10:05 a.m. to 10:30 a.m.** Mr. Bomberger distributed copies excerpts from the presentation that he would be giving to the State Budget Division on August 18, 2008, and indicated that Mr. Maginn, Mr. Riffel, and Ms. Dawes would also be attending the meeting. Mr. Bomberger feels that the proposed budget is a cost effective way to achieve our mission. The Council discussed the presentation and decided to continue with their discussion when Mr. Maginn returns to the meeting. Copies of the presentation are included in the attachments to the minutes.

At 10:30 a.m. the Council took a break and reconvened at 10:50 a.m.

Mr. Maginn returned to the meeting at 10:50 a.m.

**PRIVATE EQUITY FUND PRESENTATION BY ENNIS KNUPP: 10:50 a.m. to 11:00 a.m.** Mr. Nelson and Mr. Parkinson reviewed with the Council CVC Capital Partners. CVC Capital Partners is currently establishing CVC European Equity V, L.P. with a target commitment of €11billion to invest in European management buyouts, buyins, acquisitions, recapitalizations and related transactions. Mr. Nelson indicated that Ennis Knupp has conducted a thorough qualitative and quantitative assessment of CVC Capital Partners and the Fund. Mr. Parkinson discussed EK's evaluation of both the Firm and the Fund and indicated that Ennis Knupp recommends that the NIC commit €20 million to CVC Europe V, L.P., pending a legal review of the Limited Partnership Agreement by Ennis Knupp. A copy of the presentation was included in the meeting book.

**PRESENTATION BY CVC CAPITAL PARTNERS: 11:00 a.m. to 11:30 a.m.** Mr. Bomberger introduced Mr. Marc St. John, Partner and Mr. Jim Mestl, Director, Citigroup Smith Barney. Mr. St. John's presentation gave an organizational overview of the firm, investment strategy, and objectives. A copy of the presentation was included in the meeting book.

Following the presentation by CVC Capital Partners, Dr. DeFusco moved to commit €20 million to CVC European Equity V, L.P., pending legal review of the Limited Partnership Agreement by counsel provided by Ennis Knupp and by the Council's attorney. Mr. Dinkel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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| VOTING AYE: | Mr. Riffel<br>Ms. Werner-Robertson<br>Dr. DeFusco<br>Mr. Maginn<br>Mr. Dinkel |
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The motion carried.

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**PRIVATE EQUITY FUND PRESENTATION BY ENNIS KNUPP: 11:30 a.m. to 11:40 a.m.** Mr. Nelson and Mr. Parkinson reviewed with the Council Lincolnshire Management, Inc. Lincolnshire Management is currently offering Lincolnshire Equity Fund IV L.P., a leveraged buyout fund being formed to invest in small and middle market companies operating predominantly in the manufacturing and service sectors. Mr. Parkinson indicated that Ennis Knupp has conducted a thorough qualitative and quantitative assessment of Lincolnshire Management and the Fund. Mr. Parkinson discussed EK's evaluation of both the Firm and the Fund and indicated that Ennis Knupp recommends that the NIC commit \$20 million to Lincolnshire Equity Fund IV, L.P., pending a legal review of the Limited Partnership Agreement by Ennis Knupp's attorney. A copy of the presentation was included in the meeting book.

**PRESENTATION BY LINCOLNSHIRE MANAGEMENT, INC.: 11:40 a.m. to 12:20 p.m.** Mr. Bomberger introduced Mr. Michael Lyons, Senior Managing Director. Mr. Lyons's presentation gave an organizational overview of the firm, investment strategy, and objectives. A copy of the presentation was included in the meeting book.

Following the presentation by Lincolnshire Management, Inc. Mr. Riffel moved to commit \$20 million to Lincolnshire Equity Fund IV L.P., pending legal review of the Limited Partnership Agreement by counsel provided by Ennis Knupp's and by the Council's attorney. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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| VOTING AYE: | Ms. Werner-Robertson |
|             | Dr. DeFusco          |
|             | Mr. Maginn           |
|             | Mr. Dinkel           |
|             | Mr. Riffel           |

The motion carried.

At 12:20 p.m. the Council took a break and reconvened at 12:35 p.m.

**REVIEW OF STATUTES BY HARDING & SHULTZ: 12:35 p.m. to 12:50 p.m.** Mr. Heinrich discussed with the Council the letter included in the meeting book regarding the legal review of Nebraska laws relating to the Nebraska Investment Council and the State Investment Officer by Harding & Shultz. The scope of the project by Harding & Shultz would include the following; (1) Identify Nebraska statutes related to the duty and/or authority of the Council and the SIO to manage and/or invest the assets of the State; (2) Identify significant Nebraska appellate court decisions and Attorney General opinions related to the duty or authority of the Council or the SIO to manage and/or invest the assets of the State; and (3) Analyze the laws to identify potential conflicting statutory directives or other deficiencies. Mr. Heinrich indicated that because of the unique nature of this project, it is difficult to estimate the exact cost, but based on their current billing agreement, Harding & Shultz's best estimate is \$50,000. Following discussion by the Council, Mr. Maginn moved to approve the proposal for review of Nebraska laws relating to the Council and the State Investment Officer. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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| VOTING AYE: | Dr. DeFusco          |
|             | Mr. Maginn           |
|             | Mr. Dinkel           |
|             | Mr. Riffel           |
|             | Ms. Werner-Robertson |

The motion carried.

**CONSIDERATION OF ACQUISITION OF SECONDARY OFFERING OF ABBOTT V FUND INTEREST: 12:50 p.m. to 1:00 p.m.** Mr. Bomberger indicated that Abbott Capital has informed the NIC that a \$6 million secondary opportunity is available from Bayer Corporation, an Abbott Capital Fund V limited partner. Mr. Bomberger indicated that purchasing the secondary interests of Abbott V would provide the General

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Endowments and the HealthCare Endowment faster investment and greater vintage year diversification than already planned.

Following discussion by the Council, Mr. Maginn moved to commit \$6 million to Abbott Capital Fund V if available for the General Endowments and the HealthCare Endowment. Mr. Riffel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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| VOTING AYE: | Mr. Maginn<br>Mr. Dinkel<br>Mr. Riffel<br>Ms. Werner-Robertson<br>Dr. DeFusco |
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The motion carried.

**PRIVATE EQUITY FUND PRESENTATION BY ENNIS KNUPP: 1:00 p.m. to 1:10 p.m.** Mr. Nelson and Mr. Parkinson reviewed with the Council Accel KKR Capital Partners, L.P. Accel KKR Capital Partners is a Delaware limited partnership organized primarily to fund control investments in mid-market technology buyouts, specifically targeting technology businesses. Accel KKR Capital Partners is currently offering Accel-KKR Capital Partners III, L.P. Mr. Nelson indicated that Ennis Knupp has conducted a thorough qualitative and quantitative assessment of Accel KKR Capital Partners, L.P. and the Fund. Mr. Parkinson discussed EK's evaluation of both the Firm and the Fund and indicated that Ennis Knupp recommends that the NIC commit \$20 million to Accel-KKR Capital Partners III, L.P., pending a legal review of the Limited Partnership Agreement by Ennis Knupp's attorney. A copy of the presentation was included in the meeting book.

**PRESENTATION BY ACCEL KKR CAPITAL PARTNERS, L.P.: 1:10 p.m. to 1:35 p.m.** Mr. Bomberger introduced Mr. Ben Bisconti, Managing Director. Mr. Bisconti's presentation gave an organizational overview of the firm, investment strategy, and objectives. A copy of the presentation was included in the meeting book.

Following the presentation by Accel KKR Capital Partners, L.P., Dr. DeFusco moved to commit up to \$20 million, with a minimum of \$10 million to Accel-KKR Capital Partners III, L.P., pending legal review of the Limited Partnership Agreement by counsel provided by Ennis Knupp and by the Council's attorney. Mr. Maginn seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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| VOTING AYE: | Mr. Maginn<br>Mr. Dinkel<br>Mr. Riffel<br>Ms. Werner-Robertson<br>Dr. DeFusco |
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The motion carried.

**AUDIT COMMITTEE REPORT: 1:35 p.m. to 1:45 p.m.** Dr. DeFusco informed the Council that Mr. Maginn and he had attended the Agency's entrance conference with the Auditor of Public Accounts (APA) on July 8, 2008. Dr. DeFusco stated that the audit is for the period July 1, 2007 through June 30, 2008. The audit will include an examination of the financial records, compliance, and internal controls. Dr. DeFusco stated that lawful and ethical business conduct is required at all times of the Council, State Investment Officer, and staff. Dr. DeFusco noted that annually, updated copies of the NIC's Policy Manual are distributed to Council and staff. Also, routine meetings are scheduled by the SIO updating staff on appropriate business practices and ethical behavior. Mr. Bomberger reported that the APA plans to have the audit completed in time for the Audit Committee to report on at the September 30, 2008, Council meeting.

**COLLEGE SAVINGS PLAN UPDATE: 1:45 p.m. to 2:00 p.m.** Treasurer Osborn updated the Council on the Nebraska 529 Program. As of June 30, 2008, the Program has grown to 164,512 accounts, with assets totaling \$1.97 billion. Treasurer Osborn updated the Council on the progress of the agreement with State Farm and Oppenheimer. The Council also discussed AIM's proposal which was included in the meeting book and requested that Mr. Bomberger schedule AIM for the September 30, 2008, Council meeting.

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**STATE INVESTMENT OFFICER'S REPORT: 2:00 p.m. to 2:15 p.m.**

**IMA's executed since the last meeting:** Mr. Bomberger indicated that \$250 million has been committed to McKinley Capital. Mr. Bomberger also informed the Council that investment manager agreements have been amended with Acadian Asset Management, AllianceBernstein, MFS Institutional Advisors, and PIMCO to extend the termination date of each into the year 2010.

**Country registration meeting:** Mr. Bomberger indicated that staff from the Treasurer's Office, NPERS, State Accounting, State Street Bank and the NIC had recently met to discuss the country registration process and plan to meet again in September for further discussion.

**PERB UPDATE: 2:15 p.m. to 2:24 p.m.** Ms. Chambers reported that implementation of the State Patrol Deferred Retirement Option Plan (DROP) is scheduled to begin in September and that the IT project is going well. The State and County audit just completed went well and noted that work on the record keeper reconciliation project will continue. The audit of the Schools, Judges' and Patrol has just begun. Mr. Vandolder with Ennis Knupp, will be presenting at the PERB Retreat scheduled for August 24-25, 2008, in Kearney.

**PUBLIC COMMENT ON THE AGENDA: 2:24 p.m. to 2:25 p.m.** Ms. Werner-Robertson asked if there was any public comment on the agenda. There was no public comment on the agenda.

**EXECUTIVE SESSION: 2:25 p.m. to 4:15 p.m.** Mr. Dinkel moved to enter into closed session. The subject matter of the closed session is the compensation of staff members. The reason for the closed session is to protect the privacy of such information. Mr. Riffel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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| VOTING AYE: | Mr. Riffel           |
|             | Ms. Werner-Robertson |
|             | Dr. DeFusco          |
|             | Mr. Maginn           |
|             | Mr. Dinkel           |

The motion carried.

Ms. Werner-Robertson requested that only the voting and non-voting members of the Council, Mr. Bomberger, and Mr. Heinrich be present and all others in attendance were excused.

At 3:00 p.m. Treasurer Osborn left the meeting.

At 4:15 p.m. Mr. Dinkel moved that the Council return to open session. Mr. Riffel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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| VOTING AYE: | Ms. Werner-Robertson |
|             | Dr. DeFusco          |
|             | Mr. Maginn           |
|             | Mr. Dinkel           |
|             | Mr. Riffel           |

The motion carried.

Mr. Dinkel moved to approve the general direction of the 2009-2011 biennial budget request for employee salaries, but further discussion is scheduled for the August 26, 2008, meeting. Dr. DeFusco seconded the motion. Ms. Werner-Robertson called for a roll call vote.

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| VOTING AYE: | Dr. DeFusco |
|             | Mr. Maginn  |
|             | Mr. Dinkel  |
|             | Mr. Riffel  |

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Ms. Werner-Robertson

The motion carried.

At 4:20 p.m. Mr. Dinkel moved to adjourn the meeting. Mr. Riffel seconded the motion. Ms. Werner-Robertson called for a roll call vote.

VOTING AYE:

Mr. Maginn  
Mr. Dinkel  
Mr. Riffel  
Ms. Werner-Robertson  
Dr. DeFusco

The motion carried.

  
Kathy Dawes, Secretary